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TAGS: ECON EINV ETRD SI
SUBJECT: NEW FACES, SAME STORY: SLOVENE PRIVATIZATION UPDATE

REF: A. 05 LJUBLJANA 0889

¶B. 05 LJUBLJANA 0766
¶C. LJUBLJANA WEEKLY REPORT 10 FEBRUARY 2006
¶D. 05 LJUBLJANA 0489

Classified By: Chief of Mission Thomas B. Robertson, reasons 1.4(b) and (d).

¶1. (C) Summary: The current Government of Slovenia (GOS), in office since December 2004, came into power on a platform of change. One of the key elements of the coalition agreement was economic reform, including plans to extract the state from the economy. The GOS has said it specifically wants to sell off state shares in banking and telecom. Despite these stated goals, the GOS has accomplished little on privatization. A continuing "go slow" approach at the highest levels of government, coupled with an unwillingness to sell Slovene assets to foreign investors, remain the key roadblocks to change. There may be value in remaining conservative on the sale of valuable state assets, however, continued lack of action by the government only ensures choices not made now will be more difficult in the future. End summary.

Current Status

¶2. (C) In office for more than 14 months, the center right coalition continues the refrain that economic change is necessary, in particular weakening the strong government-business connection that has existed since before Slovenia's independence in 1991. The GOS has appointed a commission for economic reform (ref A), which has announced plans for significant changes to the Slovene economy: minimizing the tax burden, creating a more flexible labor market, and generally creating a more open economic system designed to encourage continued growth in the coming years. In line with the coalition agreement, the reform committee has also announced that a key part of economic change will be privatization of state-owned industries. Since coming to power, however, the government's record on privatization has been lackluster. The sole example of state sell-off of shares in Slovene businesses in the past year is the back-room deal of retailer Mercator (ref B).

¶3. (C) The GOS, either directly or through state-owned funds KAD and SOD, owns significant shares in nearly 60 percent of

the Slovene economy. While state-owned firms contribute to Slovenia's economic growth rates of 3-4 percent in recent years, many of these firms such as leather manufacturer IUV, clothing company Mura, and car seat maker Prevent, are in industries that are already struggling to be competitive and have little future in a well-developed economy like Slovenia's. In recent months, all have announced significant layoffs and intentions to move production outside of Slovenia. Post understands that other major Slovene businesses, such as appliance maker Gorenje and crystal maker Rogaska, are losing competitiveness and could struggle financially in coming years. While privatization is not a panacea to solving the competitiveness problems of these and other Slovene businesses, the government also has not shown itself to be the most effective manager of businesses even in the best of times.

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Finance Minister Bajuk: Maintaining A "Golden" Share
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¶4. (C) On 10 February, COM hosted a lunch for Finance Minister Andrej Bajuk (ref C) during which Bajuk acknowledged he was "moving cautiously" on privatization plans for Slovenia's two largest banks, Nova Ljubljanska Banka (NLB) and Nova Kreditna Banka Maribor (NKBM). (Note: The GOS owns more than half of NLB and 100 percent of NKBM.) Raised abroad and a long time employee of the Interamerican Development Bank, Bajuk seems to be a key advocate for privatization within the GOS. Despite more Western leanings, however, Bajuk told COM he felt it could make sense for the Slovene government to retain a "golden" (i.e., significant, but non-majority) share in certain industries, particularly in financial services. Bajuk indicated that he remains

interested in working with the European Bank for Reconstruction and Development (EBRD) on a possible "pre-privatization" stake in NKBM. EBRD sources tell Econoff, however, that progress in this area is very slow. The GOS (both current and previous) has long discussed plans for privatization of the banking sector (ref D), but only limited action has been taken.

¶5. (C) In addition to financial services, pundits in Slovenia often point to the telecommunications sector as one that needs reform and privatization. Telekom Slovenije, the government-owned monopoly landline operator and Mobitel, its cellular subsidiary that controls over 70 percent of the mobile phone market, have been regular targets of criticism by foreign investors and competition authorities from the EU. While Bajuk told COM he was interested in privatizing Telekom, he said he would first like to "improve the competition situation." Referring to widely-rumored interest by Deutsche Telekom in purchasing Telekom Slovenije, Bajuk told COM he did not want to privatize the Slovene phone operator merely by "selling to another monopoly." Bajuk did not, however, elaborate on exactly how he might go about ensuring an improved competitive environment in the Slovene telecommunications sector. (Note: Despite Bajuk's desire to see greater competition in Slovenia's phone market, the responsibility for this rests with the Ministry of the Economy and the Slovene Competition Protection Authority.)

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Comment: Is There Actually A Strategy and Timeline Here?
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¶6. (C) Slovenia's record of economic growth since independence has been one of steady, if not stellar, growth. With many of the key ingredients to support a strong economy (healthy infrastructure, well-educated workforce, stable political system) existing since 1991, Slovenia has been loath to attempt the radical changes that other countries in Central and Eastern Europe have undergone. Slovenia has often also shown great reluctance to sell state-owned firms,

particularly to foreign investors. Perhaps tellingly, the highest levels of government on occasion have expressed concern in public fora over what might happen if foreigners "take over" (ref B).

¶7. (C) Slovenia's "go slow" conservative approach to economic change has, until now, been successful. Bajuk's efforts to remain cautious on privatization indicate that there appears to be no agreement in the GOS about making rapid changes. To be sure, the current government's conservative approach has been based in part on not wanting to rock the boat and thereby risk introduction of the Euro, currently planned for January 2007. Going forward, however, Slovenia will almost certainly need to move faster. After nearly two years in the EU, external market pressures continue to force Slovenia's economy into a more dynamic and difficult environment. The current GOS professes to understand this and says that creating a more nimble, forward-looking economy will be essential to Slovenia's success in the coming years. There has been until now, however, little substantial action to support these professions. Privatization, in particular, has been slow in coming. What has been missing, moreover, in our discussions with GOS policymakers, has been a clear strategy and timeline for the way ahead in privatization.

¶8. (C) While the GOS has talked a good game on privatization, popular suspicions about foreign ownership cause the current GOS's stated intentions to sound much like those of its predecessor. Post is unaware of any significant effort by this government or those previous to counter these suspicions and influence public opinion on privatization, at a time when there is extensive discussion and debate on tax and other reforms. We are concerned that social and political obstacles to economic reform remain as strong as ever. Interestingly, Post has on file a letter dated February 2003 from the Ministry of Finance to the Embassy, stating precisely which companies in 2003 and 2004 the state planned to privatize, and the share percentages of each that would be sold. Companies on this list included NKBM, Telekom Slovenije, IUV, and Slovenia's sole port operator, Luka Koper. Of the more than 20 firms listed in the document, not one has been privatized to this date and many could be found

on the current list of companies the GOS says it plans to sell. A well-planned approach to privatization is certainly prudent and lack of traction in this area is not a new story in Slovenia. Outside observers are beginning to interpret the government's cautious moves, however, as intractability and resistance to change by the GOS itself. It is time to start the ball rolling.
ROBERTSON